

Message Text

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FM AMEMBASSY JAKARTA

TO USDOC WASHDC

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AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSULSURABAYA

UNCLAS JAKARTA 5415

USDOC FOR WEBBERT; STATE PASS IFSHIN, FSI

E.O. 11652: N/A

TAGS: BEXP

SUBJ: CCP: WOOD PROCESSING EQUIPMENT CAMPAIGN, INDONESIA

REF: JAKARTA 1762

1. EMBASSY FURNISHES HERewith DRAFT WOOD-PROCESSING CAMPAIG
-1977 AND BALANCE OF 1976 AS PROMISED REFTEL. BEARING IN MIND THAT
PROGRAM WILL BE EXECUTIED PRINCIPALLY BY
OFFICERS NOT YET ON BOARD IN
JAKARTA, EMBASSY HAS INCLUDED MORE BACKGROUND
THAN ALTOGETHER NECESSARY
FOR USDOC CONSUMPTION, AND WOULD LIKE TO EMPHASIZE
TENTATIVE NATURE OUR
JUDGMENTS ON TIMING, ESPECIALLY. COMMENTS BY MEDAN AND SURABA-
YA INVITED.

2. RAW MATERIAL ENDOWMENT (INDONESIA HAS MOST EXTENSIVE TROPICAL
HARDWOOD STANDS REMAINING IN THE WORLD) AND GOVERNMENT POLICIES
DEMANDING INDUSTRIALIZATION OF THE FORESTRY SECTOR CREATE THE EXPECTA

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TION THAT INDONESIAN WOOD PROCESSING INDUSTRIES
WILL BECOME A SIGNIFI-

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CANT EQUIPMENT MARKET. EXPERTS PLACE MAXIMUM SUSTINABLE YIELD OF

THE INDONESIAN FOREST AT BETWEEN 21 AND 24 MILLION CUBIC METERS,
DEPENDING ON THE QUALITY OF HUSBANDRY PRACTICED.
INDONESIAN AUTHORITIES
SEEK DOMESTIC PROCESSING OF 40 PERCENT OF IT
BY THE END OF REPELITA II
IN SPRING OF 1979 (30 PERCENT IS PRHAPS A MORE REALISTIC TARGET).
AS OF SEPTEMBER 1975 THERE WERE 63 SAWMILLS IN OPRATION OR UNDER
CONSTRUCTION WITH A PROCESSING CAPACITY OF 3.3 MILLION CUBIC METERS,
AND 13 VENEER MILLS WITH A CAPACITY OF 10,793 CUBIC METERS. (SOURCE:
PERKEMBANGAN INDUSTRI HASIL HUTAN PARA PEMEGANG HAK PENGUSAHAAN HUTAN
SAMPAI 30 SEPTEMBER 1975, DIREKTORAT BINA PRODUKSI,
DIREKTORAT JENDRAL
KEHUATANAN, JAKARTA). INCENTIVES TO INVEST IN WOOD-
PROCESSING FACILITIES
INCLUDE A (CONDITIONAL) UNDERTAKING IN CONTRACTS WHICH OBLIGES FOREST
CONCESSIONAIRES TO PROCESS 60 PERCENT OF THEIR HAVEST WITHIN SEVEN
YEARS FROM THE TIME HARVESTING BEGINS, AND A 10 PERCENT EXPORT TAX ON
SOME OR MOST ROUND LOGS. A REQUIRMENT TO PRODUCE PULP FROM THE
CONCESSIONS'S HAVRVEST IS FEATURE OF SOME LARGER
CONCESSION AGREEMENTS.

3. WOOD PROCESSING HAS A PLACE IN THE EXPORT PROMOTION STRATEGY NOW
BEING UNDERTAKEN BY GOI. DOMESTIC MARKET FOR PLYWOOD, IN PARTICULAR,
IS SMALL, AND EXPANDED PROCESSING MEANS DEVELOPING EXPORT MARKETS.
EXPORT MARKETS FOR BOTH PLYWOOD AND SAWN TIMBER AND ALLIED PRODUCTS
WILL MEAN ADHERING TO HIGHER QUALTY AND UNIFORMITY STANDARDS THAN ARE
THE RULE IN DOMESTIC MARKET; THIS IMPLIES IMPROVED TECHNIQUES AND,
PRESUMABLY, MORE MODERN EQUIPMENT.
OPPORTUNITIES FOR INDONESIAN TIMBER
EXPORTS ARE OPENING UP IN ERUOPE AS SUPLIES OF
AFRICAN HARDWOODS BECOME
DEPLETED. THE GREATER DITANCE OF THIS MARKET BRINGS TRANSPORT COST
CONSIDERATIONS TO THE FORE AND PROVIDES AN ADDITIONAL INCENTIVE TO
DOMESTIC PROCESSING S A MENAS OF TRANSOFRMING CARGO FROM A HIGH-BULK,
RELATIVELY LOW-VALUE PROPOSITION TO MORE COMPACT AND ECONOMICAL
DIMENSIONS. FINALLY, DEMANDS OF INDONESIAN LOG CARRIERS HAVE BEEN
SUCH AS TO PROVIDE AN ADDITIONAL (ALTHOUGH PRHAPS UNSTABLE) INCENTIVE
TO TRANSFORMATION, PERMITTING THE USE OF GENERAL CARGO SHIPS.

4. DESPITE POSITIVE SIGNS RELATED ABOVE OUR INQUIRY DISCLOSES
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RESISTANCE TO INVESTMENT IN PROCESSING ON PART OF MANY TIMBER FIRMS,
WHO CLAIM IT IS NOT PROFITABLE GIVEN CURRECNT
PRICE STRUCTURE RELATING
ROUND LOGS TO PRODUCTS, OR THAT IT IS UNPROFITABLE EXCEPT ON LARGE
SCALE, OR UNPROFITABLE WITHIN CURRENTLY ENFORECED LIMTS ON HARVEST,
OR THAT SAME FUNDS BRING HIGHER RATE OF RETURN IF INVESTED ELSEWHERE.
BELIEVE WE MUST EAVLUATE THIS RESISTENCE AND CHART ITS COURSE AS STEP
TOWARD DEVELOPING EXPORT STRATEGY BASED ON WOOD-PROCESSING EQUIPMENT.

5. CHRONOLOGY

MAY/JLY 1976: USDOC PREPARES EVALUATION OF PREVIOUS EVENTS RELEVANT TO WOOD-PROCESSING EQUIPMENT SALES EFFORT: 1973 LOGGING, FORESTRY. SAWMILL, AND WOOD-PROCESSING TRADE MISSION, 1975 PACIFIC NORTHWEST FOREST PRODUCTS MACHINERY TRADE MISSION, AND INDONESIAN WOOD-PRODUCT SALES MISSION TO THE UNITED STATES IN OCTOBER 1975.

AUGUST 1976: REVIEW COMPREHENSIVE SECTORAL SURVEY WITH ABOVE MATERIAL DEVELOPED BY USDOC: EMBASSY AND USDOC DRAW UP INITIAL LIST OF TYPES OF EQUIPMENT WITH GREATEST SALES POTENTIAL IN INDONESIA. NEXT STEP IS USDOC IDENTIFICATION OF AMERICAN MANUFACTURERS. WHOSE PRODUCTS MEET REQUIREMENTS OF THE INDONESIAN MARKET-ASNOW KNOWN TO US, THESE ARE:

EQUIPMENT IS RUGGED

IT ECONOMICALLY MANUFACTURES WOOD PRODUCTS OF QUALITY AND UNIFORMITY SUITABLE FOR EXPORT

EQUIPMENT IS SIMPLE TO OPERATE AND TO MAINTAIN AND REPAIR

EQUIPMENT IS PORTABLE (SAWMILLS)

WE NOW BELIEVE AMERICAN FIRMS ARE VIRTUALLY UNREPRESENTED IN THIS AREA. A SEPARATE CHORE WILL THEREFORE BE TO IDENTIFY THOSE QUALIFIED MANUFACTURERS DISPOSED TO MAKE THE NEEDFUL SUSTAINED EFFORT TO BECOME ESTABLISHED HERE.

SEPTEMBER 1976, OR WHEN IT IS AVAILABLE REVIEW TVRI FILM OF NAFED-ORGANIZED 1975 SALES AND PURCHASE MISSION TO THE UNITED STATES AND ASSESS ITS SUITABILITY FOR USE IN PROMOTING U.S. WOODWORKING MACHINERY SALES. CONSIDER ADVISABILITY OF SCHEDULING, CIRCA NOVEMBER (OR AFTER THE DUST HAS SETTLED FROM CIRCA SEPTEMBER-OCTOBER 1976 MINING PRODUCTION AND PROCESSING MACHINERY AND EQUIPMENT SEMINAR) A RECEPTION WITH FILM AND SPEAKER FROM THE U.S. HARDWOOD PLYWOOD MANUFACTURERS' ASSOCIATION. GUESTS WOULD BE REPRESENTATIVES OF FIRMS THAT HAVE APPLIED TO LAUNCH WOODWORKING BUSINESSES, SELECTED FROM AMONG THOSE THAT LOOK MOST PROMISING IN LIGHT OF COMPREHENSIVE MARKET SURVEY IF IT

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CONTAINS THIS MUCH DETAIL-OTHERWISE RELY UPON THE ADVICE OF NAFED AND OF BIN PRODUKSI, DIREKTORAT JENDERAL KEHUTANAN, DEPARTMENT OF AGRICULTURE). PROGRAM SHOULD ALSO BE OFFERED TO SURABAYA AND MEDAN. CIRCA NOVEMBER-DECEMBER 1976:

DETERMINE ADVISABILITY OF ORGANIZING

A SEMINAR ON WOOD PROCESSING TO TAKE PLACE AFTER 1977 ELECTIONS (CIRCA MARCH-JULY OR AUGUST 1977 SHOULD BE CONSIDERED DEAD PROGRAMMING TIME) AND SET PREPARATIONS IN MOTION. EVENT'S OBJECTIVES (TO BE REVIEWED IN LIGHT OF SECTORAL SURVEY RESULTS AND EXPERIENCE WITH RECEPTION) WOULD BE TO INDOCTRINATE INDONESIAN AUDIENCE (BOTH TIMBER CONCESSIONAIRES AND POTENTIAL EQUIPMENT AGENTS) TO MERITS OF AMERICAN EQUIPMENT, TO SEND AMERICAN PARTICIPANTS BACK TO U.S. WITH A MESSAGE FOR U.S. MANUFACTURERS AND FINANCING INSTITUTIONS ABOUT THE INDONESIAN MARKET, TO AIR THE FINANCING ISSUE, AND TO DEMONSTRATE USG SENSITIVITY TO GOI

DEVELOPMENT OBJECTIVES. U.S. PARTICIPANTS SHOULD INCLUDE AN EXPORT-IMPORT BANK REPRESENTATIVE.

NOVEMBER 1976-JANUARY 1977: DEVELOP (A) ANNOTATED LIST OF TIMBER PROJECTS WITH GOOD POTENTIAL OF REQUALIFICATION IDENTIFYING MANAGEMENT, RECORDING ADDRESSES (OFFICE AND POSTAL). DESCRIBING PROJECTS WITH PROJECTED DATES OF PRINCIPAL PHASES. WTDR FOR EACH FIRM SPONSORING A PROJECT CONSIDERED VIABLE; (B) IMPROVED LIST OF AGENCIES QUALIFIED TO HANDLE U.S. WOOD-PROCESSING EQUIPMENT LINES.

FEBRUARY 1977 STUDY FINANCING OF WOOD-PROCESSING VENTURE. IS FINANCING AVAILABLE ON COMPETITIVE TERMS TO CREDITWORTHY INDONESIAN FIRMS TO PURCHASE U.S. EQUIPMENT?

CAN U.S. FIRMS INTRODUCE ALTERNATIVE TO JAPANESE FINANCING PATTERNS THAT DIRECT EQUIPMENT CHOICES TO OTHER THAN U.S. EQUIPMENT?

JUNE 1977: STUDY INDIVIDUALLY THE HANDFUL OF MAJOR PULP AND PAPER MANUFACTURING PROPOSALS KNOWN TO THE DIRECTORATE GENERAL OF CHEMICAL INDUSTRIES AND RUMORED IN COMMERCIAL CIRCLES (EACH REPRESENTS AN INVESTMENT ESTIMATED AT \$250 MILLION.) CONSIDERING THEIR APPARENT VIABILITY, PACE OF IMPLEMENTATION, AND TIES TO FOREIGN SPONSORSHIP OR LACK THEREOF, IDENTIFY THOSE THAT OFFER BEST SALES PROSPECTS FOR AMERICAN MANUFACTURERS AND ENGINEERS. ON THE BASIS OF THESE FINDINGS, CONSIDER THE ADVISABILITY OF A MAJOR PROJECT STRATEGY IN THE PULP AND PAPER SECTOR, NOVEMBER 1977: PROJECTED TIMING OF SEMINAR OR OTHER EVENT MENTIONED ABOVE, TO ALLOW TIME FOR SETTLING DOWN AFTER ELECTIONS. UNCLASSIFIED

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